
CHAPTER III. FINANCIAL STATUS OF THE UNEMPLOYMENT INSURANCE SYSTEM

The financial condition of the Unemployment Insurance system has deteriorated sharply in recent years. Since 1970, annual UI outlays have frequently exceeded payroll tax revenues, thereby reducing balances in the Unemployment Trust Fund and necessitating loans to certain states for the payment of benefits. In addition, federal accounts in the UTF have required advances from the federal general fund, both to provide loans to states and to pay federal benefits.

This chapter analyzes recent financial developments in the UI program, and describes the prospects for future financial stability.

RECENT EXPERIENCE

Unemployment Insurance benefits and tax receipts fluctuate in response to changes in the unemployment rate, increases in wage levels, and numerous changes in state and federal UI laws. Since 1970, however, overall annual benefit payments have exceeded payroll tax revenues in most years, resulting in declining program balances.

State UI Programs

State programs, in particular, have been unable to maintain a stable financial base during the last several years (see Table 3). Since 1970, state UI benefits have exceeded payroll tax revenues in all years except 1973, 1974, 1978, and 1979, reflecting, in part, high levels of joblessness in the economy. The annual imbalance in state accounts was \$2.5 billion in fiscal year 1972 when unemployment was 5.9 percent, \$5.2 billion in 1976 when the jobless rate was 8 percent, and \$7.4 billion in 1982 when unemployment averaged 9.1 percent.

Benefits. State UI benefit payments--including regular UI and the states' 50 percent share of extended benefits--have increased since 1970, although they have also fluctuated with cyclical changes in joblessness. Total benefits reached cyclical highs of \$5.7 billion in 1972, \$11.6 billion in 1976, and \$20.2 billion in 1982. Most of these payments have been for regular UI benefits, with annual state spending for EB reaching \$1 billion only in 1976, 1977, and 1981.

TABLE 3. STATE UNEMPLOYMENT INSURANCE OUTLAYS AND REVENUE, 1970-1982 (In billions of dollars)

Fiscal Year	Benefits		Tax Revenue	Revenue Less Benefits <u>b/</u>	National Unemployment Rate (percent)
	Regular	Extended <u>a/</u>			
1970	2.8	0	2.6	-0.2	4.0
1971	5.2	0	2.6	-2.6	5.7
1972	5.4	0.3	3.2	-2.5	5.9
1973	4.2	0.1	4.6	0.3	5.2
1974	4.9	0.1	5.3	0.3	5.0
1975	10.0	0.6	5.3	-5.3	7.3
1976	10.2	1.4	6.4	-5.2	8.0
1977	8.9	1.0	9.3	-0.6	7.4
1978	8.3	0.5	11.0	2.2	6.2
1979	8.7	0.1	12.3	3.5	5.8
1980	13.0	0.6	11.9	-1.7	6.8
1981	13.5	1.1	12.4	-2.2	7.4
1982	19.3	0.9	12.8	-7.4	9.1

SOURCES: U.S. Department of Labor, Unemployment Insurance Service; House Committee on Ways and Means, Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means, February 8, 1983; and Budget of the U.S. Government, various years.

- a. Includes only the states' 50 percent share of Extended Benefit outlays.
- b. Tax revenues less the sum of regular benefits and the states' share of Extended Benefits.

These benefit payments depend on the numbers of persons who receive them, the weekly benefit level, and the length of time the benefits are collected (see Table 4). 1/

The number of persons receiving regular UI benefits has fluctuated cyclically during the 1970-1982 period, reaching higher peaks during successive economic downturns and returning to higher ebb points after each recovery. Since 1974, the number of persons receiving their first regular UI benefit has averaged 9.3 million per year, and in only one year has fallen below 8 million.

The average weekly regular UI benefit has increased by 7.5 percent annually between 1970 and 1982--rising from \$50 to \$119 per week. A primary reason for this gain was the increase in the average weekly wage in covered employment from about \$140 in 1970 to about \$315 in 1982. This increase in earnings affected both average weekly benefits--calculated in many states as a fraction of the worker's prior earnings--and the maximum weekly benefit, which also depends on average covered wages in many states.

The average duration of regular UI benefits also increased between 1970 and 1982, although neither as sharply nor as systematically as average weekly benefits. The average duration of regular benefits fluctuated between 12.3 weeks in 1970 and 15.9 weeks in 1982. This probably reflected changes in the availability of jobs in the economy, since few major changes were made in statutory state benefit-duration limits.

Addition of the permanent Extended Benefit program in 1972 increased the total duration of UI compensation for persons who exhaust their regular Unemployment Insurance. Because of the mechanism used to initiate the payment of EB--providing added benefits only when unemployment in the state exceeds certain thresholds--the number of EB recipients has fluctuated dramatically. Between 1972 and 1982, the number of persons receiving extended benefits annually has varied from 100,000 to four million. The average actual duration of EB ranged between 8.5 weeks in 1972 and 11.4 weeks in 1980.

Tax Revenues. State payroll tax revenues have grown at an average annual rate of 14 percent since 1970, largely because of gradual increases in taxable wages and in the tax rate. The minimum taxable wage base per

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1. Many changes in state laws--including changes in state benefit formulas and in the minimum and maximum benefit amounts--both increased and decreased benefits between 1970 and 1982.

**TABLE 4. STATE UNEMPLOYMENT INSURANCE BENEFIT STATISTICS,
1970-1982**

Calendar Year	Regular			Extended	
	Average Weekly Benefit Amount (dollars)	Average Duration of Benefits (weeks)	Number of Initial Payments (millions)	Average Duration of Benefits (weeks)	Number of Initial Payments (millions)
1970	50	12.3	6.4	-	0
1971	54	14.4	6.6	9.1	1.4
1972	56	14.0	5.8	8.5	1.1
1973	59	13.4	5.3	9.1	0.2
1974	64	12.7	7.7	9.2	0.9
1975	70	15.7	11.2	9.4	4.0
1976	75	14.9	8.6	10.1	3.3
1977	79	14.2	8.0	9.3	2.7
1978	84	13.3	7.6	9.5	0.9
1979	90	13.1	8.1	10.0	0.3
1980	99	14.9	10.0	11.4	0.2
1981	107	14.5	9.4	10.4	0.1
1982	119	15.9	11.7	9.1	2.2

SOURCE: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 (1978), and unpublished data.

worker increased twice, rising from \$3,000 to \$6,000 (see Table 5). As a result of that increase and a rise in the number of covered workers, total taxable wages grew from about \$180 billion in 1970 to over \$480 billion in 1982.

The average state UI tax rate on taxable wages increased from 1.3 percent in 1970 to almost 2.9 percent in 1977 and then declined to 2.5 percent in 1982, in response both to shifts among different rate schedules dictated by changes in state Trust Fund balances and to changes in state tax laws. During this period, the tax rate as a fraction of total wages first rose, from 0.64 percent in 1970 to 1.37 percent in 1978, before declining to 0.86 percent in 1982.

The Federal UI Program

Federal UI outlays have fluctuated with the nation's jobless rate in recent years, while federal UI revenues have increased more steadily. Unlike state programs, however, restrictions on the availability of federal benefits and increases in the federal tax base and tax rate have allowed the federal program generally to meet its financial obligations, even in periods of high joblessness.

Outlays. Federal outlays include those for benefit payments and for program administration. Federal EB outlays have fluctuated widely with joblessness, especially during the mid-1970s (see Table 6). Since 1981, however, EB outlays have been reduced considerably because of changes in federal law limiting their availability. Federal UI Trust Fund outlays also included Federal Supplemental Benefits and Special Unemployment Assistance payments in the mid-1970s. Since April 1977, however, temporary federal benefits--when available--have been financed with general funds, rather than with federal Trust Fund balances.

Federal payments for administration of UI and the Employment Service have grown steadily--increasing from \$700 million in 1970 to \$2.1 billion in 1982. Increases in these outlays have been related to growth in staff size and increases in the salaries of workers.

Tax Revenues. Federal UI payroll tax revenues increased from \$800 million in 1970 to \$3.2 billion in 1982, largely reflecting increases in the federal tax base plus a 0.2 percentage-point increase in the net federal tax rate beginning in 1977 to help repay outstanding general-revenue loans. Revenues also increased in response to required increases in the effective federal tax in states with delinquent UI loans, as discussed in the next section.

TABLE 5. STATE UNEMPLOYMENT INSURANCE TAX STATISTICS, 1970-1982

Calendar Year	Minimum Tax Base per Worker <u>a/</u> (dollars)	Total Taxable Wages <u>b/</u> (billions of dollars)	Average Tax Rate as Percent of	
			Taxable Wages	Total Wages
1970	3,000	183	1.34	0.64
1971	3,000	183	1.41	0.64
1972	4,200	236	1.70	0.88
1973	4,200	255	1.98	0.99
1974	4,200	265	2.00	0.95
1975	4,200	262	1.98	0.89
1976	4,200	301	2.58	1.20
1977	4,200	324	2.85	1.28
1978	6,000	412	2.77	1.37
1979	6,000	444	2.64	1.25
1980	6,000	459	2.48	1.08
1981	6,000	480	2.50	1.06
1982 <u>c/</u>	6,000	483	2.52	0.86

SOURCE: U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data, 1938-1976 (1978), and unpublished data.

- a. Equal to the federal tax base per worker. States frequently have larger bases.
- b. Based on actual tax bases in each state.
- c. For period ending September 1982.

TABLE 6. FEDERAL UNEMPLOYMENT INSURANCE OUTLAYS AND REVENUE, 1970-1982 (In billions of dollars)

Fiscal Year	Outlays		Payroll Tax Revenue <u>c/</u>	Revenue Less Outlays	National Unemployment Rate (percent)
	Benefits <u>a/</u>	Admin-istrative Expenses <u>b/</u>			
1970	0	0.7	0.8	0.1	4.0
1971	0	0.8	1.0	0.2	5.7
1972	0.3	0.8	1.0	-0.1	5.9
1973	0.1	0.9	1.3	0.3	5.2
1974	0.1	0.9	1.5	0.5	5.0
1975	1.5	1.2	1.3	-1.4	7.3
1976	5.0	1.4	1.5	-4.9	8.0
1977	2.6	1.6	1.9	-2.3	7.4
1978	0.7	1.6	2.6	0.3	6.2
1979	0.1	1.7	2.9	1.1	5.8
1980	0.6	1.9	3.2	0.7	6.8
1981	1.1	2.1	3.3	0.1	7.4
1982	1.0	2.1	3.2	0.1	9.1

SOURCES: Committee on Ways and Means, Background Material and Data on Major Programs Within the Jurisdiction of the Committee on Ways and Means, February 8, 1983; and Budget of the U.S. Government, various years.

- a. Federal share of EB, plus federal supplemental benefits that were financed by UI taxes.
- b. Includes both federal and state administration costs for Unemployment Insurance and the Employment Service.
- c. Federal UI revenues, including penalty tax payments by states with delinquent UI loans.

STATE AND FEDERAL UI LOANS

The worsening financial condition of state UI programs has caused several states to borrow from the Federal Unemployment Account to pay benefits. Also, federal accounts in the Unemployment Trust Fund have required advances from the federal general fund both to make these loans to the states and to pay a portion of federal benefits during 1975-1977. None of these loans directly affects the federal deficit, however, because all the accounts are included in the unified federal budget, making the loans merely intrabudgetary transfers. These loans, nonetheless, facilitate increases in the federal budget deficit because they permit benefits to exceed UI tax revenues.

State Loans

At the end of March 1983, 30 states owed the Federal Unemployment Account \$13.7 billion (see Table 7). In 1982 alone, new state loans totaled nearly \$5.2 billion, significantly exceeding the previous annual high of \$1.9 billion in 1976. Since the beginning of 1975, 38 states have borrowed \$17.2 billion, and about \$3.5 billion has been repaid. Loan repayments have been slow even in times of little new borrowing, however, with annual repayments exceeding \$1 billion only in 1979.

State UI loans at the end of March 1983 totaled about 1 percent of total annual covered wages in the economy, but were more than 3 percent in each of four large states in the industrial midwest--Illinois, Michigan, Ohio, and Pennsylvania--which together accounted for nearly three-fourths of all loans outstanding. Currently, 16 states are repaying delinquent state loans through mandatory increases in the effective federal UI tax paid by their employers. Loans repayments resulting from this provision are estimated by the Department of Labor to be about \$600 million in fiscal year 1983. Maine currently has the largest federal tax increase at 0.9 percent of taxable payroll--resulting in a net federal tax rate of 0.8 percent plus 0.9 percent, or 1.7 percent, of the first \$7,000 in taxable wages per covered employee. Connecticut has the second highest increase at 0.7 percent, followed by nine states at 0.6 percent, and five states at 0.3 percent. ^{3/}

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3. States paying a 0.6 percent penalty include Delaware, the District of Columbia, Illinois, New Jersey, Pennsylvania, Puerto Rico, Rhode Island, Vermont, and the Virgin Islands. States paying a 0.3 percent penalty are Arkansas, Michigan, Minnesota, Ohio, and West Virginia.

TABLE 7. FEDERAL LOANS TO STATES FOR UNEMPLOYMENT INSURANCE, 1975-1983
(In millions of dollars)

State	° Calendar Years				Out- standing Loans March 31, 1983	Loans as Percent of Total Covered Wages <u>a/</u>
	1975- 1977	1978- 1980	1981	1982		
Total	4,636	2,357	1,615	5,183	13,700	1.0
Alabama	57	-	-	-	48	0.3
Arkansas	30	29	35	13	110	1.2
Colorado	-	-	-	4	70	0.3
Connecticut	415	37	-	-	294	1.2
Delaware	37	10	10	15	50	1.2
District of Columbia	59	15	-	16	68	1.0
Florida	42	-	-	-	-	-
Hawaii	23	-	-	-	-	-
Illinois	759	225	487	843	2,486	3.2
Indiana	-	-	-	-	40	0.1
Iowa	-	-	-	79	155	1.1
Kentucky	-	-	52	78	207	1.3
Louisiana	-	-	-	102	281	1.1
Maine	23	14	-	-	11	0.2
Maryland	63	-	-	-	-	-
Mass.	265	-	-	-	-	-
Michigan	624	842	233	1,182	2,558	4.4
Minnesota	172	28	86	193	393	1.5
Missouri	-	-	-	90	130	0.5
Montana	9	1	-	-	7	0.2
Nevada	8	-	-	-	-	-
New Jersey	639	96	-	-	520	1.0
North Dakota	-	-	-	-	12	0.4
New York	156	180	-	-	-	-
Ohio	2	246	354	1,134	2,062	3.1
Oregon	18	-	-	-	-	-
Pennsylvania	926	518	305	816	2,645	3.8
Puerto Rico	75	14	-	-	57	0.9
Rhode Island	75	55	-	-	95	1.8
Tennessee	-	-	-	-	53	0.2
Texas	-	-	-	143	398	0.4
Utah	-	-	-	-	25	0.3
Vermont	43	-	-	-	35	1.4
Virginia	-	-	-	-	46	0.2
Virgin Islands	11	-	-	-	4	0.8
Washington	105	-	-	-	-	-
West Virginia	-	47	53	45	226	2.4
Wisconsin	-	-	-	430	614	2.1

SOURCE: U.S. Department of Labor, Unemployment Insurance Service.

a. Covered wages for the one-year period ending September 1982.

**TABLE 8. STATE UNEMPLOYMENT INSURANCE ACCOUNT
BALANCES AT END OF FISCAL YEAR, 1970-1982
(In billions of dollars)**

Fiscal Year	State Balances Net of Loans	Total Outstanding Loans	Total State Balances
1970	12.4	0	12.4
1971	10.5	0	10.5
1972	9.0	0.1	9.1
1973	10.0	0.1	10.1
1974	10.8	0.1	10.9
1975	6.1	0.7	6.8
1976	1.5	3.1	4.6
1977	1.2	4.5	5.7
1978	3.8	5.4	9.2
1979	8.2	5.1	13.3
1980	7.6	4.6	12.2
1981	6.7	6.2	12.9
1982	0.7	8.6	9.3

SOURCES: Budget of the U.S. Government, various years; Annual Report of the Secretary of the Treasury, various years; and unpublished data.

State balances net of loans reached a low of about \$0.7 billion at the end of fiscal year 1982, although the total balance including borrowed funds was over \$9 billion (see Table 8). The previous year-end low net balance was \$1.2 billion at the end of 1977.

Federal Loans

Loans from the federal general fund to federal Trust Fund accounts totaled \$15.3 billion at the end of fiscal year 1982. These loans were used for the payment of extensions of benefits by the federal government, and to provide funds for loans to states.

To Finance Federal Benefits. Outstanding loans used to pay federal extended and supplemental benefits reached a high of nearly \$9 billion at the end of fiscal year 1978, and remained at \$6.8 billion at the end of fiscal year 1982. Of the \$9 billion in loans made through 1978, \$5.8 billion was used to finance federal supplemental benefits in 1975-1977, and \$3.2 billion was used to pay the federal share of extended benefits. No additional loans for these purposes have been required since 1978.

To deal with this component of the federal Trust Fund debt, the Congress in 1976 enacted a temporary 0.2 percentage-point increase in the effective federal UI tax paid by employers in all states. These additional revenues are used to make repayments on this part of the federal loan. When the debt is repaid, the net federal tax will be reduced from 0.8 percent to 0.6 percent.

To Finance Loans to States. The Federal Unemployment Account has also required advances from the general fund to finance nearly the entire amount of its loans to states. At the end of fiscal year 1982, that account had outstanding loans of \$8.5 billion from the general fund. 4/

PROJECTED UI OUTLAYS AND REVENUES

With unemployment expected to decline slowly as the economy recovers, outlays for Unemployment Insurance are also projected to fall only gradually (see Table 9). Even with joblessness at about 9 percent, however, both state and federal UI programs are projected to have annual surpluses.

4. Authority for these loans recently was increased by about \$5 billion as part of emergency jobs legislation (P.L. 98-8).

TABLE 9. CONGRESSIONAL BUDGET OFFICE PROJECTIONS OF UNEMPLOYMENT AND UI OUTLAYS AND REVENUE, 1983-1988 (In billions of dollars)

Fiscal Year	Projected Unemployment Rate (percent)	State Programs			Federal Program		
		Payroll Tax Outlays	Revenue Less Revenue	Outlays	Payroll Tax Outlays ^{a/}	Revenue Less Revenue	Outlays
1983	10.7	24.8	15.0	-9.8	4.3	4.5	0.2
1984	10.1	22.4	18.7	-3.7	4.2	5.2	1.0
1985	9.2	21.6	22.7	1.1	3.3	6.0	2.7
1986	8.5	21.3	25.5	4.2	3.3	7.8	4.5
1987	8.1	21.2	26.9	5.7	3.4	7.2	3.8
1988	7.6	21.1	27.8	6.7	3.4	7.9	4.5

SOURCE: The Congressional Budget Office, based on February 1983 economic assumptions.

- a. Federally financed benefits plus state and federal administration of UI and ES.

State Outlays and Revenues

Benefits paid under state programs are projected to peak at nearly \$25 billion in fiscal year 1983, and to remain above \$21 billion through 1988. State payroll tax revenues are expected to continue to fall short of outlays through 1984; however, if joblessness declines as expected in fiscal years 1985-1988, annual state UI revenues could surpass benefits.

Significant amounts of additional state borrowing are likely to occur, especially in fiscal years 1983 and 1984. Using more optimistic economic assumptions, the Administration in April 1983 projected additional state borrowing of \$7.2 billion in fiscal year 1983 and \$4.6 billion in 1984. Total outstanding state loans are forecast by the Administration to peak at \$18.7 billion at the end of fiscal year 1985. With lower joblessness in future years, the loan balances are then projected to decline.

Federal Outlays and Revenues

In contrast to the state programs, federal UI revenues are projected to exceed outlays throughout fiscal years 1983-1988, resulting in net surpluses during that period. Restrictions made in 1981 on the availability of extended benefits have significantly reduced those outlays, and the present general-revenue financing of Federal Supplemental Compensation has shifted the financial burden of that program away from the UI Trust Fund. Administrative costs are projected to remain relatively stable in future years, because of offsetting reductions in caseloads--which will require a smaller staff--and increases in salaries per person-year of staff time.

Federal tax revenues are projected by the Congressional Budget Office (CBO) to increase from \$3.2 billion in fiscal year 1982 to nearly \$8 billion in 1988. Among the reasons for this rise are the increases in the tax rate--from 0.7 percent to 0.8 percent--and in the tax base--from \$6,000 to \$7,000--that began in 1983. Federal revenues will also increase because of increases in the federal tax in states with delinquent loans, although these funds are earmarked for repayment of state loans.

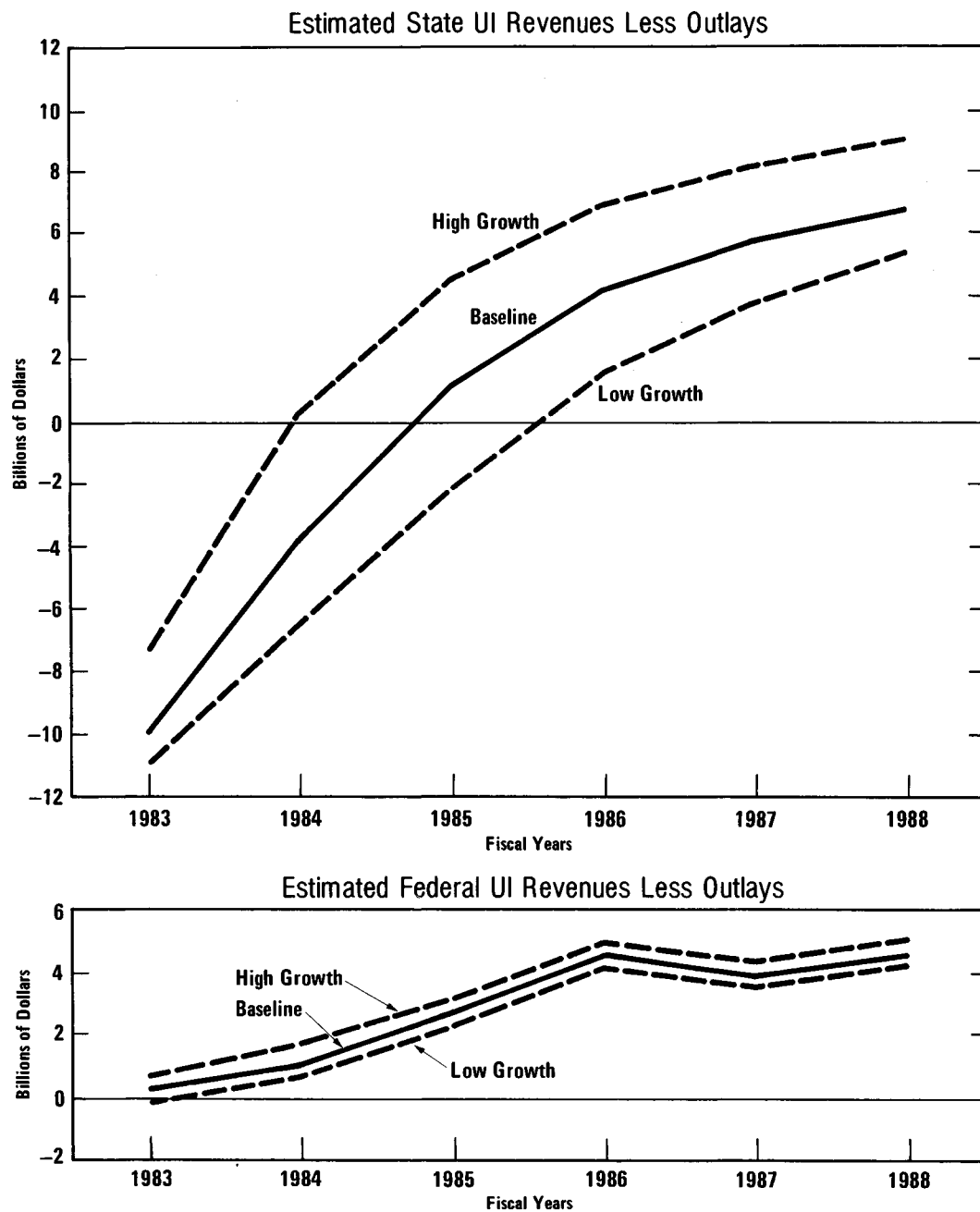
Sensitivity to Economic Conditions

Future UI outlays and revenues depend on the future values of several economic factors, including the unemployment rate, the rate of inflation, and the overall rate of economic growth. The jobless rate affects UI outlays by influencing the number of program recipients, and affects revenues by determining, in part, the size of the work force on which UI tax payments are based. Inflation affects future wage rates which, in turn, are linked to future benefit levels. Finally, the overall rate of economic growth indirectly affects outlays and revenues through its effects on unemployment and inflation.

The sensitivity of annual UI outlays and revenues to economic conditions is presented in Figure 2. ^{5/} Revenues less outlays are displayed there under three economic scenarios--the CBO February 1983 baseline forecast and its high- and low-growth alternatives. The baseline projection assumes a moderate recovery from the recent recession, with real economic growth of 4.7 percent in calendar year 1984, declining to 3.5 percent by 1988; unemployment is projected to fall to 7.5 percent by 1988. The high-growth alternative assumes a real growth rate of 6 percent in 1984, declining to 4

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5. See Appendix B for details of the economic assumptions and estimates of state and federal UI revenues and outlays for 1983-1988.

Figure 2.
Projections of State and Federal UI Revenues Less Outlays



SOURCE: Congressional Budget Office.

percent by 1988; joblessness is assumed to decline to 6 percent by 1988. Finally, CBO's low-growth alternative assumes that real growth reaches only 3.3 percent in 1984-1985 before falling to 3.0 percent in 1987-1988; unemployment under this scenario declines slowly to 9 percent in 1988.

State UI revenues are projected to exceed outlays in fiscal year 1985 and beyond under the CBO baseline assumptions (as indicated earlier); under the high-growth alternative this first occurs in 1984, and in the low-growth case it occurs in 1986. Annual state surpluses reach \$6.7 billion in 1988 under CBO baseline assumptions, and \$9.0 billion and \$5.4 billion in the high- and low-growth cases, respectively. Estimated federal UI revenues exceed projected outlays throughout the 1984-1988 period under all three sets of economic assumptions.

